

MANAGEMENT BOARD COMMENT ON GORENJE GROUP SECOND QUARTER PERFORMANCE AND OUTLOOK FOR THE SECOND HALF OF 2017

Gorenje Group wraps up the first half successfully, continuing to increase revenue and profit

Gorenje Group was successful in the first half of the year, with higher sales revenue and net profit. We are increasing the share of profitable innovative and premium products and stepping up investments into development. Around 300 new hirings in this year. The third quarter will be challenging; sales are expected to peak in the last quarter.

Velenje, August 25, 2017 – Gorenje Group continues its successful performance. In the first half of the year, we generated EUR 623.9 million of sales revenue, up 7.3 percent over the first half of last year. Comparable operating profit before depreciation and amortisation (EBITDA) was higher by good 12 percent compared to the first half of the year before, at EUR 40.6 million. As a result, the Group more than doubled its first-half net profit relative to the equivalent period of the preceding year, pushing it to EUR 4.4 million. We increased the sales of major and small domestic appliances and premium appliances, improved the geographical structure of our sales, and increased revenue in both the core activity of home appliances as well as in other activities.

Growth of sales revenue and EBITDA in the second quarter of 2017

In the second quarter of 2017, Gorenje Group generated EUR 318.2 million of revenue, which is 7.6 percent more than in the second quarter of 2016. In comparable terms, EBITDA was 2.1 percent higher, amounting to EUR 20 million. With somewhat lower comparable EBIT, which is a result of higher costs of new product development and intensified investment cycle in the preceding period, we maintained the net financial debt to EBITDA ratio at the level of last year's second quarter (4.7).

We also successfully kept the costs of raw and processed materials and logistics in check, despite the fact that material prices started to rise in the second quarter of 2017 due to changes in the market.

Solid results beyond Europe on account of good product structure, premium brands, and cost management

With higher and structurally more favourable sales of home appliances in the first half of 2017, our revenue for the period grew by 7.3 percent. Solid management of material and logistics costs also had a positive effect on the results. Our performance was successful in other activities as well, where revenue increased by 31 percent.

Highest sales growth rates were seen in the markets outside Europe (with nearly 30 percent growth), in Western Europe, in the markets of Benelux, and in Eastern European markets. In the first half of 2017, we increased our sales particularly in North America, Australia, the Middle and Far East, Caucasus region, and Asia. Thus, we are mitigating our reliance on the European markets and improving the sales structure, also by increasing the share of premium appliances and brands.

We boosted our sales of premium brands Asko (14.4-percent growth) and Atag, and the appliances of the Pelgrim and Etna brands. Our revenue from sales of premium appliances thus increased by good 11 percent, and we saw the same growth rate with innovative appliances. In the structure of major domestic appliance sales revenue, the share of innovative appliances rose to 21.6 percent, while premium appliances now account for nearly 30 percent. Growth was also recorded with the Gorenje brand. Sales of our dishwashers were up by more than a fifth, and sales of small domestic appliances increased by nearly 28 percent.

Highest share of investments dedicated to development

Consistently with our strategic goal, we invested 3 percent of total sales revenue from home appliance operations and 2.5 percent of total Group revenue into new product development. Investments totalled at EUR 30.7 million in the first half of 2017, with the highest share earmarked for new product development.

This year, we will complete the cycle of high investments, and in the years ahead, the level of capital expenditure will be balanced against depreciation and amortization.

Key new developments of the first half of 2017 include new built-in fridge freezers for the brands Gorenje and Pelgrim, new free standing cookers for the Gorenje brand, Gorenje Retro Special Edition refrigerator designed in cooperation with Volkswagen, and updated designer line of appliances Gorenje Ora Īto 2. At IFA, the largest consumer electronics and home

appliance tradeshow taking place early in September in Berlin, we will unveil the latest appliances under the Gorenje and Asko brand, which stand out with smart technology and carefully thought-out design.

Changes in the Gorenje Group organization

After a successful first year of the new Strategic Plan, we decided to further support the pursuit of our strategy by transforming our organizational structure from one focused on business functions to one based on business areas. New organization encourages even more entrepreneurship and it is based on clear responsibility of each individual for the accomplishment of the specified goals. Thus, Gorenje Group now includes two main business areas: Home Appliances (core activity) and non-core activities (heating systems, kitchen furniture, bathrooms, ceramic tiles, ecology, trade, and industrial services). The third business area is Support Functions that support the Group as a whole.

In the first half of the year, the average number of employees at the Gorenje Group was 11,021, which is on average 384 more than in the last year's first quarter.

Further measures to attain the planned business goals in the second half of the year

Despite our success in the first half of the year, our key challenges for the second half of 2017 remain attaining the planned sales, especially in the highly competitive markets of Western Europe, cost efficiency with regard to growing prices of key raw materials and components, and labour cost pressures, and improvement of inventory management efficiency, which will lead to appropriate deleveraging by the end of the fiscal year. The third quarter is expected to be particularly challenging due to the two summer months when consumption is typically lower. As usual, sales are expected to peak in the last quarter.

In the second half of the year, we continue to carry out a number of measures to counter and alleviate the said negative aspects and to attain the Gorenje Group's planned business results in 2017 in all key aspects. We continue to pursue Gorenje Group's key strategic directions and policies that include growth of premium product and brand sales, sales growth in non-European markets, and focus on design, innovation, and digital solutions to meet the needs of our end users. We shall continue the process of digital transformation consistently with the adopted Gorenje Group digital business strategy, and we shall continue to focus on the activity of home appliances as the Group's core activity, which shall also include a review

of options to divest our non-core operations and assets. At the same time, we shall nurture profitable growth of the company and seek to increase our market shares and improve the pricing position of the company's brands. Responding to the pressures on material and labour costs, we shall also continue to pursue even more intensively the cost rationalization at all levels of our business.